

SOUTH VALLEY WATER RECLAMATION FACILITY

FINANCIAL STATEMENTS

DECEMBER 31, 2005

SOUTH VALLEY WATER RECLAMATION FACILITY  
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FOR THE YEAR ENDED DECEMBER 31, 2005

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
South Valley Water Reclamation Facility  
7495 South 1300 West  
West Jordan, Utah 84084

We have audited the accompanying basic financial statements of South Valley Water Reclamation Facility as of and for the year ended December 31, 2005, as listed in the table of contents. These basic financial statements are the responsibility of South Valley Water Reclamation Facility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of South Valley Water Reclamation Facility as of December 31, 2005 and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 27, 2006, on our consideration of South Valley Water Reclamation Facility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of South Valley Water Reclamation Facility. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*Wiggins & Co. P.C.*

Sandy, Utah  
January 27, 2006

South Valley Water Reclamation Facility  
Management Discussion and Analysis  
For The Year Ended December 31, 2005

The discussion of South Valley Water Reclamation Facility's financial performance provides an overview of the Facility's financial activities for the year ending December 31, 2005. This report is in conjunction with the Facility's statements.

Overview of the Facility

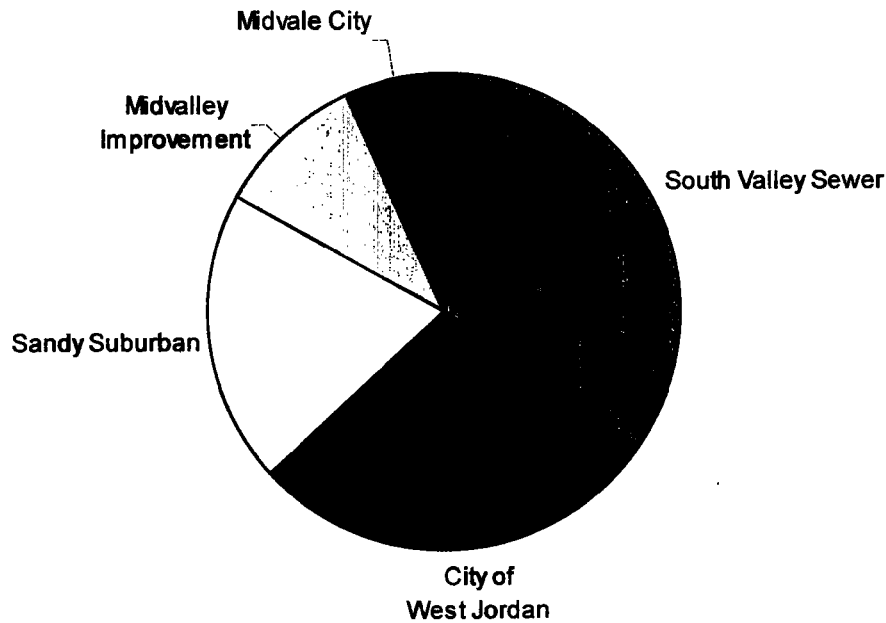
The South Valley Water Reclamation Facility project dates back to 1976 when the area-wide basin plan (under Section 208 of the Clean Water Act), was completed. At that time, planning bodies in the Salt Lake County area determined that three regional wastewater treatment plants plus a wastewater treatment plant serving Magna, would provide the optimum system for treating sewage. The plan is currently being reviewed by the County of Salt Lake and the State of Utah.

The South Valley Water Reclamation Facility (Facility) was organized on June 23, 1978, pursuant to the Interlocal Agreement of the State of Utah, by two cities and three improvement districts. The Interlocal Agreement has been amended two times. The purpose of the Facility was to construct and operate regional sewage treatment facilities for the benefit of the five members. The Facility is located at 7495 South 1300 West, West Jordan, Utah. The Facility is administered by a Board of Directors. Each member entity appoints one member to the Board, and each member has one vote. Therefore, each member is equal to another for voting privileges. The Board is responsible for adopting a budget and provides the financing for the facility. All costs and expenses are reimbursed monthly to the Facility by the members on the basis of sewage constituent and flow measurements for O & M and ownership percentages for capital costs. The Facility has other minimal revenue sources.

Originally, federal funds were provided by the Environmental Protection Agency (EPA) to finance 75% of the original property, plant and equipment purchases. The Facility provided funds for the remaining 25% from member contributions in proportion to the ownership interests.

The following is a recap of the related ownership interests and the equivalent capacity of ownership in the treatment plant, as of 2006:

	<u>%</u>	<u>MGD</u>
South Valley Sewer Facility	34.72	13.20
City of West Jordan	28.22	10.72
Sandy Suburban Improvement Facility	20.17	7.66
Midvalley Improvement	10.11	3.84
Midvale City Corporation	<u>6.78</u>	<u>2.58</u>
Total	<u>100.00</u>	<u>38.00</u>



### Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to the Facility's basic financial statements. The Facility's basic financial statements are comprised of two components, 1) financial statements, and 2) notes to the financial statements.

The Facility prepares its financial statements on an enterprise fund basis. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private, non-profit businesses, where the intent is that all costs of providing certain goods and services to the Owner Entities be financed or recovered primarily through monthly bills to each. Under this fund, the accrual method of accounting is used. Under this method, revenues are recovered when earned and expenses are recorded at the time liabilities are incurred. These statements provide both long-term and short-term information about the Facility's overall financial status. The financial statements are comprised of three statements, and related notes to the financial statements.

### The Balance Sheet

This presents information on all of the assets and liabilities of the Facility. Over time, increases or decreases in assets may serve as a useful indicator of whether the financial position of the Facility is improving or deteriorating.

### The Statement of Activities

This presents information showing how the member's equity changed during the fiscal year reported. All changes in equity are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

### The Statement of Cash Flows

This presents information on the cash receipts, cash payments, and change in cash resulting from operations, investing, and financing activities. This statement answers questions such as where did the cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

### The Notes to the Financial Statements

Provide additional information that is essential for a full understanding of the data provided in the government-wide financial statements. The notes are part of the basic financial statements.

### Government-Wide Financial Analysis

As noted earlier, member equity may serve over time as a useful indicator of a government's financial position. In the case of the Facility, assets exceeded liabilities by \$ 49,139,366.

	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 23,129,680	\$ 4,192,205
Capital Assets	<u>47,696,381</u>	<u>47,056,803</u>
Total Assets	<u>\$ 70,826,061</u>	<u>\$ 51,249,008</u>
Total Current and Long-Term liabilities outstanding	<u>\$ 21,686,695</u>	<u>\$ 994,809</u>
Net Assets:		
Invested in capital assets net of related debt	27,675,087	46,957,002
Restricted	20,154,518	272,099
Unrestricted	<u>1,309,761</u>	<u>3,025,098</u>
Net Assets	<u>49,139,366</u>	<u>50,254,199</u>
Total Liabilities and Net Assets	<u>\$ 70,826,061</u>	<u>\$ 51,249,008</u>

The largest portion of the Facility's assets reflects the investment in capital assets (e.g., land, buildings). The Facility uses these capital assets to provide sanitary sewer service to owners of the Facility. Consequently, these assets are not available for future spending.

Statement of Activities

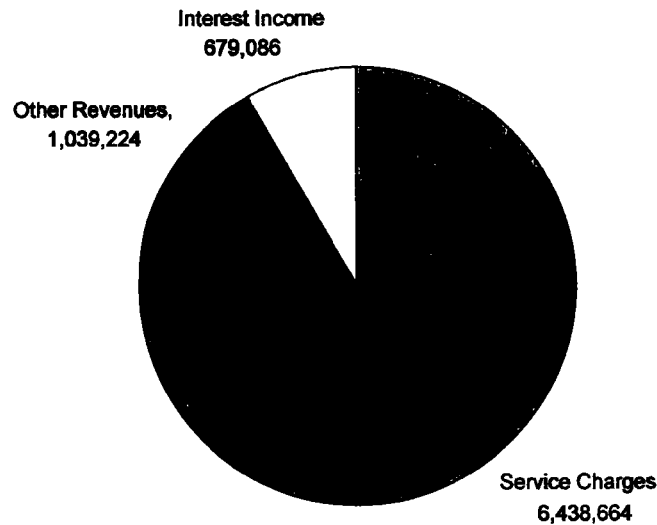
South Valley Water Reclamation Facility  
Statements of Revenues, Expenses and Changes in Equity Balance  
For the Year Ended December 31, 2005

	<u>2005</u>	<u>2004</u>
Revenues:		
Service charges	\$ 6,438,664	\$ 6,281,100
Treatment and other fees	431,466	472,780
Pre-treatment	571,007	311,066
Other	<u>36,751</u>	<u>77,976</u>
Total revenues	<u>7,477,888</u>	<u>7,142,922</u>
Operating expenses:		
Administration	462,429	465,952
Finance	167,482	284,897
Laboratory	413,489	403,858
Maintenance	1,028,661	912,071
Operations	2,745,172	2,878,737
Pre-treatment	582,585	474,958
Solids disposal	1,152,406	742,676
IT/Electrical	373,484	320,473
Non-departmental	<u>295,875</u>	<u>692,942</u>
Total Expenses	<u>7,221,583</u>	<u>7,176,564</u>
Income from operation before depreciation and non operating revenues (expense)	256,305	(33,642)
Depreciation (expense)	<u>(3,018,257)</u>	<u>(3,183,171)</u>
Net income (loss) from operations	<u>(2,761,952)</u>	<u>(3,216,813)</u>
Non-operating revenues (expenses):		
Interest income	679,086	33,642
Bond interest and principal	<u>(634,665)</u>	<u>          </u>
Total non-operating	<u>44,421</u>	<u>33,642</u>
Net income before contributions	(2,717,531)	(3,183,171)
Members' contributions (capital and expansion)	3,602,698	4,272,114
Refund of members' deposit	<u>(2,000,000)</u>	<u>          </u>
Changes in net assets	(1,114,833)	1,088,943
Adjusted members' equity at beginning of year	<u>50,254,199</u>	<u>49,165,256</u>
Total members' net assets at end of year	<u>\$ 49,139,366</u>	<u>\$ 50,254,199</u>

### Overview of Facility Revenues

The Facility has one primary source of revenue, service charges, based on member billings. There are other revenues received from pretreatment activities and interest earnings, but member billings make up 78.9 % of the total revenue for operations.

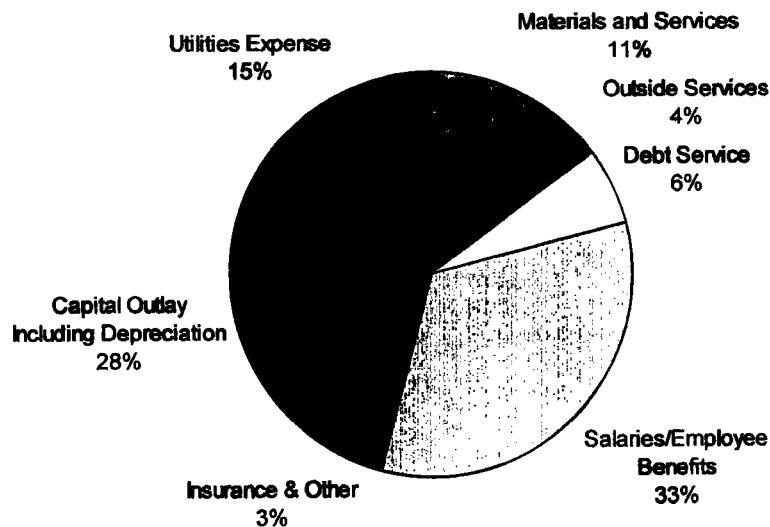
#### Over-View of Revenues



The Facility has one primary source of revenue: service charges.

### Overview of Facility's Expenditures

The Facility has the following major costs of operations: Materials and Services, Outside Services, Debt Service, Salaries/Employee Benefits, Insurance & Other, Capital Outlay Including Depreciation, and Utilities Expense. The depreciation at present time is not reimbursed by the owners and represents the loss reported on the income statement.



### The Statement of Cash Flows

Presents information on the cash receipts, cash payments, and change in cash resulting from operations, investing, and financing activities. This statement answers questions such as from where did the cash originate, how was the cash used, and what was the change in the cash balance during the reporting period.

South Valley Water Reclamation Facility  
Statement of Cash Flows  
For the Year Ended December 31, 2005

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Cash received from members	\$ 5,867,296	4,901,475
Cash received from pretreatment	506,307	311,066
Cash received from other sources	420,346	550,756
Cash paid for salaries and employee benefits	(3,538,551)	(3,517,300)
Cash paid for other operating expenses	<u>(2,852,392)</u>	<u>(717,562)</u>
Net cash provided (used) for operating activities	<u>403,006</u>	<u>1,528,435</u>
Cash flows from capital & related activities:		
Purchase of property and equipment	(3,657,835)	(4,158,881)
Members' contributions	3,602,698	4,272,114
Refund of Members' Deposits	(2,000,000)	0
Payment on capital lease	(99,801)	(96,618)
Proceeds from Bond including bond premium	19,931,314	0
Bond interest	<u>(604,932)</u>	<u>0</u>
Net cash provided (used) for capital and related financing activities	<u>17,171,444</u>	<u>16,615</u>
Cash flow from investing activities	<u>679,086</u>	<u>33,642</u>
Net increase (decrease) in cash and cash equivalents	18,253,536	1,578,692
Cash and cash equivalents at beginning of year	<u>2,882,105</u>	<u>1,303,413</u>
Cash and cash equivalents at end of year	<u>\$ 21,135,641</u>	<u>\$ 2,882,105</u>

The accompanying notes are an integral part of these financial statements.

### Overview of Capital Expenditures

#### South Valley Water Reclamation Facility – Phase IV Project

The next expansion of the Facility is estimated to cost \$21.3 million and increase the capacity of the facility from 38 to 50 MGD. Along with the expansion is the replacement/upgrade of the existing facility at a cost of \$ 43.3 million. The majority of the expansion costs will be the responsibility of West Jordan City. West Jordan will purchase an additional 7.5 MGD and the remaining entities will purchase 4.5 MGD. The construction of "Phase IV" is in process and should be complete by year 2009. The upgrading cost will be shared by all entities based on current ownership. Project financing will be a combination of bonding and member entity self-financing.

### Economic Factors

The largest impact on the Facility budget is based upon the Member Entity demand. The increase in expenditures correspond also with the increase in demand by Owner-Entities.

### Request for Information

This financial report is designed to provide a general overview of South Valley Water Reclamation Facility finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to: South Valley Water Reclamation Facility, General Manager, 7495 South 1300 West, West Jordan, UT 84084.

SOUTH VALLEY WATER RECLAMATION FACILITY  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2005

ASSETS

Current assets:

Cash and cash equivalents		\$ 981,123
Restricted cash		20,154,518
Accounts receivables:		
Operations	\$ 1,543,607	
Projects	306,216	
Pre-treatment	138,856	
Other	<u>5,360</u>	<u>1,994,039</u>
Total current assets		<u>23,129,680</u>

Property and equipment:

Property and equipment		85,808,375
Less accumulated depreciation		<u>(38,111,994)</u>
Net property and equipment		<u>47,696,381</u>
Total assets		<u>\$ 70,826,061</u>

The accompanying notes are an integral part of these financial statements.

SOUTH VALLEY WATER RECLAMATION FACILITY  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2005

LIABILITIES

Current liabilities:

Accounts payable	\$ 1,172,655
Accrued liabilities	131,607
Accrued vacation and sick payable	153,611
Accrued interest payable	89,980
Construction escrow payable	4,554
Current portion:	
Bond payable	15,000
Bond premium	<u>20,388</u>

Total current liabilities 1,587,795

Non-current liabilities:

Bond payable	19,410,000
Non-current vacation and sick pay accrual	202,974
Bond premium	<u>485,926</u>

Total non-current liabilities 20,098,900

Total liabilities 21,686,695

NET ASSETS

Invested in capital assets net of related debt	27,675,087
Restricted	20,154,518
Unrestricted	<u>1,309,761</u>

Total net assets 49,139,366

Total liabilities and net assets \$ 70,826,061

The accompanying notes are an integral part of these financial statements.

SOUTH VALLEY WATER RECLAMATION FACILITY  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2005

Operating revenues:	
Service charges	\$ 6,438,664
Treatment and other fees	431,466
Pre-treatment	571,007
Other	<u>36,751</u>
Total operating revenues	<u>7,477,888</u>
Operating expenses:	
Administration	462,429
Accounting	167,482
Laboratory	413,489
Maintenance	1,028,661
Operations	2,745,172
Pre-treatment	582,585
Solids disposal	1,152,406
IT/electrical	373,484
Non-departmental	<u>295,875</u>
Total operating expenses	<u>7,221,583</u>
Income from operations before depreciation and non-operating revenues (expenses)	256,305
Depreciation (expense)	<u>(3,018,257)</u>
Net income (loss) from operations	(2,761,952)
Non-operating revenues (expenses):	
Interest income	679,086
Bond interest and principal	<u>(634,665)</u>
Total non-operating	<u>44,421</u>
Net income before contributions	(2,717,531)
Members' contributions (capital and expansion)	3,602,698
Refund of members' deposit	<u>(2,000,000)</u>
Changes in net assets	(1,114,833)
Adjusted members' net assets at beginning of year	<u>50,254,199</u>
Total members' net assets at end of year	<u>\$ 49,139,366</u>

The accompanying notes are an integral part of these financial statements.

SOUTH VALLEY WATER RECLAMATION FACILITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2005

Cash flows from operating activities:	
Cash received from members	\$ 5,867,296
Cash received from pre-treatment	506,307
Cash received from other sources	420,346
Cash paid for salaries and employee benefits	(3,538,551)
Cash paid for other operating expenses	<u>(2,852,392)</u>
Net cash provided (used) for operating activities	<u>403,006</u>
Cash flows from capital and related financing activities:	
Purchase of property and equipment	(3,657,835)
Members' contributions	3,602,698
Refund of members' deposit	(2,000,000)
Payment on capital lease	(99,801)
Proceeds from bond	19,425,000
Bond premium	506,314
Payment interest on bonds	<u>(604,932)</u>
Net cash provided (used) for capital and related financing activities	<u>17,171,444</u>
Cash flows from investing activities:	
Interest on investments	<u>679,086</u>
Net cash provided (used) by investing activities	<u>679,086</u>
Net increase (decrease) in cash and cash equivalents	18,253,536
Cash and cash equivalents at beginning of year	<u>2,882,105</u>
Cash and cash equivalents at end of year	<u>\$ 21,135,641</u>

The accompanying notes are an integral part of these financial statements.

SOUTH VALLEY WATER RECLAMATION FACILITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2005

Reconciliation of net loss to cash used for operating activities:

Net income (loss) from operations	\$ (2,761,952)
Depreciation	3,018,257
Amortization of bond premium	(29,733)
Current assets and liabilities:	
(Increase) decrease in accounts receivable	(683,939)
Increase (decrease) in accounts payable	979,901
Increase (decrease) in accrued liabilities	148,017
Increase (decrease) in construction escrow payable	<u>(267,545)</u>
Net cash provided (used) by operating activities	<u>\$ 403,006</u>

Supplemental disclosure of noncash investing, capital, and related financing activities:

Accounts payable were incurred in the construction and purchase of property and equipment in the amount of \$168,470 during 2005.

Accounts receivable from members' for construction contributions totaled \$104,746 at December 31, 2005.

Interest expense was incurred, billed and received from certain owner entities in the amount of \$604,932.

The accompanying notes are an integral part of these financial statements.

SOUTH VALLEY WATER RECLAMATION FACILITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

South Valley Water Reclamation Facility (the Facility) was created by an Interlocal Cooperative Agreement dated June 23, 1978 for the purpose of developing, acquiring, constructing, financing, maintaining and repairing, owning and operating a regional sewerage and water treatment plant and related facilities located in the south part of Salt Lake County, Utah. The Interlocal Agreement was amended on December 21, 1984 by amendment No. 1. On May 20, 2004 the Interlocal Agreement was amended to create a separate legal governmental entity by amendment No. 2. The purpose of amendment No. 2 was to form a legal entity, clarify their ownership status and facilitate transfers of ownership.

The Facility is owned as follows:

	<u>Percent</u>	<u>MGD</u>
South Valley Sewer District	34.72%	13.20
West Jordan City Corporation	28.22%	10.72
Sandy Suburban Improvement District	20.17%	7.66
Midvalley Improvement District	10.11%	3.84
Midvale City Corporation	6.78%	2.58
Total	<u>100.00%</u>	<u>38.00</u>

The Facility is not a component unit of any other entity. The Facility's financial statements include all Facility operations and there are no potential component units that should be included as part of the reporting entity.

The facility is in the process of expanding the operations from 38 MGD (Million Gallons per Day) to 50 MGD. The plant ownership interest will be adjusted in accordance with the proportion of the expansion paid by the participating members. Mandatory participation in plant expansion is not required. The ownership interest of the members' shall be based upon the percentage of plant treatment capacity which each member has purchased. The estimated new ownership percentages are as follows:

	<u>Percent</u>	<u>MGD</u>
South Valley Sewer District	32.40%	16.20
West Jordan City Corporation	36.44%	18.22
Sandy Suburban Improvement District	17.32%	8.66
Midvalley Improvement District	7.68%	3.84
Midvale City Corporation	6.16%	3.08
Total	<u>100.00%</u>	<u>50.00</u>

SOUTH VALLEY WATER RECLAMATION FACILITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Accounting

The financial statements are prepared in conformity with the provisions of the Governmental Accounting Standards Board (GASB). The Facility is an enterprise fund and uses the accrual method of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

In 2004 the Company implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB Statement No. 34), GASB Statement 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus* which provides additional guidance for the implementation of GASB Statement 34, and GASB Statement No. 38, *Certain Financial Statement Disclosures* which changes note disclosure requirements for governmental entities.

Economic Dependency

The Facility is economically dependant on the five owner entities for the operating capital expenditures and expansion costs as outlined in the above percentages.

Inventory

The Facility records inventory at cost and accounts for it in a periodic first-in first-out basis. At December 31, 2005, there was no inventory on hand.

Accounting Pronouncements

The Facility has elected, under Government Accounting Standards Board Statement 20, to follow the pronouncements issued by the Financial Accounting Standards Board (FASB), unless those pronouncements conflict with or contradict GASB pronouncements.

Property and Equipment

Property and equipment are stated at cost. Normal maintenance and repairs that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred.

The net book value of property sold or otherwise disposed of is removed from the property and accumulated depreciation accounts and the resulting gain or loss is included in the statement of revenues and expenses. Depreciation of property and equipment was computed using the methods and estimated lives as shown in Note C.

SOUTH VALLEY WATER RECLAMATION FACILITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property and Equipment (continued)

Interest costs are capitalized, when applicable, according to the provisions of the Financial Accounting Standards Board (FASB) Statement 62. During the year ended December 31, 2005, no interest expense was capitalized.

Federal funds provided by the Environmental Protection Agency (EPA) were used to fund 75% of the original property, plant and equipment purchases. The Facility provided funds for the remaining purchases from members' contributions. Federal regulations state that the original purpose set forth in the grant was met, or the Facility received approval from the EPA for alternate uses.

Contributed Capital

Original property, plant and equipment purchases were funded as set forth in the preceding paragraph. Current purchases are funded solely through members' contributions. Contributions are based on percentage of ownership in new projects.

Revenue – Billings to Members

All operating costs and expenses, excluding depreciation, are reimbursed to the Facility by the members on the basis of sewage flow measurements. Capital expenditures are reimbursed based on ownership percentages. Net operating expenses are billed monthly to members and are reduced by interest earned and miscellaneous revenue. The Facility has no other significant source of revenue; therefore it is economically dependant on the five owner entities.

Pensions

The Facility maintains a money purchase plan and a deferred compensation plan. The Facility's policy is to fund pension costs as they occur.

Budgetary Accounting

For management and control purposes, the Facility adopts and maintains a budget each year. Non-cash items such as depreciation are not budgeted. Items budgeted, but not expended, are not carried over to succeeding years. Each operating budgeted item must be re-appropriated each year. Capital budgeted for plant expansion is carried over from year to year.

Allowance for Doubtful Accounts

Management has recorded an allowance for doubtful accounts in the amount of \$3,663 at December 31, 2005. Management has determined that the allowance is adequate. During the year, bad debts were written off in the amount of \$17,172.

SOUTH VALLEY WATER RECLAMATION FACILITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Vacation, Sick Leave and Other Compensated Absences

Facility employees are entitled to certain compensated absences based on their length of employment. No more than 160 hours of unused vacation can be carried over from one year to the next. Upon termination, all unused vacation is paid to the employee. All unused sick leave is carried over from year to year. Upon retirement, 25% of unused sick leave is paid to employees that have at least five years of service, subject to the manager's approval. Upon retirement, up to 50% of unused sick leave is paid to employees that use the proceeds to pay for medical insurance.

Statement of Cash Flows

The facility defines cash and cash equivalents as all cash and investments with original maturities of three months or less.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Risk Management

The Facility has exposure to liabilities due to the nature of its operations. The Facility purchases insurance from an independent carrier to provide worker's compensation coverage and general liability and property insurance. There were no significant reductions in insurance coverage from the prior period.

**NOTE B. CASH AND CASH EQUIVALENTS**

The Facility maintains a cash and investment pool that is available for use. Following are the components of the Facility's cash and investments at December 31, 2005:

Cash and cash equivalents	\$ 981,123
Restricted cash and cash equivalents	<u>20,154,518</u>
Total	<u>\$ 21,135,641</u>

SOUTH VALLEY WATER RECLAMATION FACILITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE B. CASH AND CASH EQUIVALENTS (Continued)**

Deposits

At December 31, 2005, the carrying amount of the Facility's deposits was \$688,579 and the bank balance was \$892. Of the bank balance, \$892 was covered by federal depository insurance. Deposits are not collateralized nor are they required to be by state statute. However, the State Commissioner of Financial Institutions monitors financial institutions and establishes limits for deposit of public money at individual financial institutions, and the Facility follows these recommendations.

The Facility follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the deposit of Facility funds in a "qualified depository". The Act defined a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Investments

At December 31, 2005, the Facility's investment balance was as follows:

<u>Investment type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
Utah Public Treasurers' Investment Fund	\$ 294,622	N/A	Unrated
US Bank Trust Department (Bond Escrow Funds) invested in mutual funds (short term US Treasury obligations and repurchase agreements secured by US Treasury obligations)	20,149,965	average maturity approximately 9 days	Aaa (Moody's) AAAM (Standard and Poors')
Total	<u>\$ 20,444,587</u>		

*Interest Rate Risk.* The Facility has no policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Facility invests in the Utah Public Treasurer's Investment Fund which is short term.

*Credit Risk.* The Facility has no policy regarding credit risk. The investment in the Utah Public Treasurer's Investment Fund is unrated. These monies are invested primarily in money market securities.

SOUTH VALLEY WATER RECLAMATION FACILITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE B. CASH AND CASH EQUIVALENTS (Continued)**

Investments (continued)

*Custodial Credit Risk.* For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the Facility will not be able to recover the value of its investments that are in the possession of an outside party. The Facility has no policy on custodial credit risk.

*Concentration of Credit Risk.* The Facility places no limit on the amount that the Facility may invest in any one issuer. The Facility has no concentration of credit risk.

The Utah Public Treasurer's Investment Fund (UPTIF) is an external deposit and investment pool wherein governmental entities are able to pool the monies from several entities to improve investment efficiency and yield. These monies are invested primarily in money market securities and contain no withdrawal restrictions. As such, the monies invested in this fund are not insured and are subject to the same market risks as any similar investment in money market funds. The fund is not SEC registered. The fair value of the Facility's position in the fund is the same as the value of the fund shares.

Restricted Assets

The restricted cash and cash equivalent, of \$20,154,518, is collected and reserved for the expansion of the facility. Funds are shown as restricted assets to be used only for the purpose defined by contract or under legal provisions. The current portion of bonds payable (including the bond premium) will be paid out of the restricted cash.

**NOTE C. PROPERTY AND EQUIPMENT**

The facility depreciates property and equipment using the straight line method. A summary of the changes in property and equipment is as follows:

The costs, included in land and treatment facility in progress, are not being depreciated. The in progress reduction of \$8,515,119 is included as part of the additions to assets. These assets will be depreciated based on when they are complete and put in operation. Assets transferred in the amount of \$8,049,836 will be depreciated starting January 1, 2006. The current year amount of depreciation charged to operations amounted to \$3,018,257.

SOUTH VALLEY WATER RECLAMATION FACILITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE C. PROPERTY AND EQUIPMENT (Continued)**

	<u>Life Years</u>	<u>Balance 12/31/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/05</u>
Land		\$ 4,611,769	\$ 281,201	\$	\$ 4,892,970
Treatment facility:					
In service	10-30	56,236,802	7,243,425		63,480,227
In progress		6,748,493	3,603,182	(8,515,119)	1,836,556
Compost project	3-20	3,175,462	24,092		3,199,554
Vehicles and equipment	3-25	10,973,646	1,021,054		11,994,700
Office furniture	3-10	404,368			404,368
		82,150,540	12,172,954	(8,515,119)	85,808,375
Less accumulated depreciation		(35,093,737)	(3,018,257)		(38,111,994)
Total		<u>\$ 47,056,803</u>	<u>\$ 9,154,697</u>	<u>\$ (8,515,119)</u>	<u>\$ 47,696,381</u>

**NOTE D. RETIREMENT AND DEFERRED COMPENSATION PLANS**

Retirement Plan

The Facility provides pension benefits for all its full-time employees through a defined contribution plan established under Section 401(a) and related provisions of the Internal Revenue Code. In a defined contribution plan, future benefits depend solely on the accumulation of amounts contributed to the plan plus investment earnings. All employees are eligible to participate and are fully vested in the plan assets as of the date of contribution. The Facility contributes 21.6% of each employee's base salary who was hired prior to April 1, 1986, and 20.15% of each employee's base salary hired after March 31, 1986.

The Facility's total payroll for the year ended December 31, 2005 was \$2,425,570. Retirement plan contributions were calculated on covered participant payroll of \$2,308,088 for the year ended December 31, 2005. Total contributions by the Facility for the year ended December 31, 2005 were \$255,967.

Deferred Compensation Plan

The Facility offers its employees a deferred compensation plan established in accordance with Section 457 of the Internal Revenue Code. The plan, available to all employees, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the exclusive benefit of the participants and their beneficiaries.

SOUTH VALLEY WATER RECLAMATION FACILITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE E. CONTRIBUTED CAPITAL**

As stated in Note A, the members' of the Facility are funding property, plant and equipment purchases. As of December 31, 2005, contributed capital balances were as follows:

	<u>2005</u>
South Valley Sewer District	\$ 21,489,957
West Jordan City Corporation	17,902,727
Sandy Suburban Improvement District	11,202,692
Midvalley Improvement District	5,424,020
Midvale City Corporation	<u>3,824,011</u>
Total members' contributed capital	<u>\$ 59,843,407</u>

**NOTE F. COMMITMENTS AND CONTINGENCIES**

A previous employee has made a claim against South Valley Water Reclamation Facility in regard to the Facility Money Purchase Pension Plan. After an audit of the Facility Money Purchase Pension Plan, it was noted the claimant was entitled to restitution in his plan in the amount of \$14,760. The Facility also offered to pay an additional sum of \$5,000 to cover the claimant's costs and expenses incurred in pursuing the claim, contingent on accepting the correct method and amount. The claimant never responded to this offer and the time in which to respond has expired.

**NOTE G. LONG TERM OBLIGATIONS**

Bond Payable

In July 2005, the Facility issued Utah Sewer Revenue Bonds, Series 2005 for \$19,425,000. Annual principal payments begin August 15, 2006, semi annual interest payments begin on February 15, and August 15, 2006 at an interest rate of 2.85% to 5.00%. The bonds mature on August 15, 2030. The proceeds from the sale of the Series 2005 Bonds are being used to (i) finance a portion of the costs of construction of certain improvements to the Treatment facilities, including the expansion of the capacity of the sewer treatment plant, and (ii) pay certain costs associated with the issuance of the Series 2005 Bonds.

The bond covenants require the obligated members (City of West Jordan, Utah and Midvale City, Utah) and the Facility to submit audited financial statements commencing with the fiscal year ending December 31, 2005 to each repository no later than one hundred eighty days (180) after year end. The annual report shall include the top ten payers of sewer fees for the obligated members (historical and projected revenues). They are required to report significant events such as delinquencies, defaults, unscheduled draws, modification of rights of bondholders, rating changes and defeasances.

SOUTH VALLEY WATER RECLAMATION FACILITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE G. LONG TERM OBLIGATIONS (Continued)**

The total annual debt service obligation is as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 15,000	\$ 459,502	\$ 474,502
2007	130,000	918,575	1,048,575
2008	200,000	913,375	1,113,375
2009	250,000	906,375	1,156,375
2010	325,000	897,625	1,222,625
2011-2015	2,690,000	4,241,950	6,931,950
2016-2020	4,060,000	3,522,624	7,582,624
2021-2025	5,160,000	2,447,750	7,607,750
2026-2030	6,595,000	1,021,000	7,616,000
Total	<u>\$ 19,425,000</u>	<u>\$ 15,328,776</u>	<u>\$ 34,753,776</u>

The total debt service for the issued bonds is for two entities' (Midvale and West Jordan) obligation for their share of the expansion of treatment plant. These two entities are billed monthly for principal and interest obligations for their share of debt service requirements. Each entity's share is listed below.

The Midvale City Council approved, by resolution, recognition of the obligation for the 2005 sewer revenue bonds issued by South Valley Water Reclamation Facility and to appropriate and pay the debt service obligations.

The annual billing for the debt service obligation for Midvale is as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 10,000	\$ 51,443	\$ 61,443
2007	15,000	102,600	117,600
2008	25,000	102,000	127,000
2009	25,000	101,125	126,125
2010	25,000	100,250	125,250
2011-2015	295,000	477,125	772,125
2016-2020	455,000	396,437	851,437
2021-2025	585,000	274,250	859,250
2026-2030	735,000	114,500	849,500
Total	<u>\$ 2,170,000</u>	<u>\$ 1,719,730</u>	<u>\$ 3,889,730</u>

SOUTH VALLEY WATER RECLAMATION FACILITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE G. LONG TERM OBLIGATIONS (Continued)**

The City of West Jordan recognizes the assessment obligation for the 2005 sewer revenue bonds issued by South Valley Water Reclamation Facility and will subordinate their interfund service fee for the payment of the debt service assessments.

The annual billing for the debt service obligation for West Jordan is as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 5,000	\$ 408,059	\$ 413,059
2007	115,000	815,975	930,975
2008	175,000	811,375	986,375
2009	225,000	805,250	1,030,250
2010	300,000	797,375	1,097,375
2011-2015	2,395,000	3,764,825	6,159,825
2016-2020	3,605,000	3,126,187	6,731,187
2021-2025	4,575,000	2,173,500	6,748,500
2026-2030	5,860,000	906,500	6,766,500
Total	<u>\$ 17,255,000</u>	<u>\$ 13,609,046</u>	<u>\$ 30,864,046</u>

SUPPLEMENTAL SCHEDULES

SOUTH VALLEY WATER RECLAMATION FACILITY  
BUDGET TO ACTUAL COMPARISON  
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
Operating revenues:				
Service charges	\$ 6,913,899	\$ 6,719,240	\$ 6,438,664	\$ (280,576)
Treatment and other fees	462,000	428,000	431,466	3,466
Pre-treatment	320,000	566,000	571,007	5,007
Other	<u>103,000</u>	<u>34,000</u>	<u>36,751</u>	<u>2,751</u>
Total revenues	<u>7,798,899</u>	<u>7,747,240</u>	<u>7,477,888</u>	<u>(269,352)</u>
Operating expenses:				
Administration	518,755	523,915	462,429	61,486
Accounting	179,959	174,969	167,482	7,487
Laboratory	469,914	473,114	413,489	59,625
Maintenance	1,088,430	1,126,634	1,028,661	97,973
Operations	3,276,424	2,760,144	2,745,172	14,972
Pre-treatment	567,422	598,071	582,585	15,486
Solids disposal	880,917	1,160,189	1,152,406	7,783
IT/electrical	422,650	422,650	373,484	49,166
Non-departmental	<u>413,428</u>	<u>546,554</u>	<u>295,875</u>	<u>250,679</u>
Total operating expenses	<u>7,817,899</u>	<u>7,786,240</u>	<u>7,221,583</u>	<u>564,657</u>
Non-operating revenues:				
Interest income	19,000	696,302	679,086	(17,216)
Bond interest and principal	<u>          </u>	<u>(657,302)</u>	<u>(634,665)</u>	<u>22,637</u>
Total non-operating revenues	<u>19,000</u>	<u>39,000</u>	<u>44,421</u>	<u>5,421</u>
Excess of operating revenues over operating expenditures before depreciation	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 300,726</u>	<u>\$ 300,726</u>

SOUTH VALLEY WATER RECLAMATION FACILITY  
RECONCILIATION OF CONTRIBUTIONS AND NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Midvale City	South Valley Sewer	Midvalley Improvement District	West Jordan City	Sandy Suburban	Total	EPA Portion	Balance 12/31/05
2004 Adjusted members' contributions	\$ 3,682,814	\$ 21,890,576	\$ 5,309,238	\$ 16,481,244	\$ 10,876,836	\$ 58,240,708	\$ 29,135,887	\$ 87,376,595
2005 Members' contributions								
Capital contributions	78,205	400,485	116,616	325,510	232,656	1,153,472		1,153,472
Phase IV contributions	85,748	(441,385)	67,720	992,941	197,704	902,728		902,728
Construction project financing contributions	87,309	471,611	88,396	666,837	232,346	1,546,499		1,546,499
Refund of members' contributions	(110,065)	(831,330)	(157,950)	(563,805)	(336,850)	(2,000,000)		(2,000,000)
Total 2005 contributions	141,197	(400,619)	114,782	1,421,483	325,856	1,602,699		1,602,699
Total members' contributions, December 31, 2005 (ownership of facility)	3,824,011	21,489,957	5,424,020	17,902,727	11,202,692	59,843,407	29,135,887	88,979,294
Retained earnings, depreciation and prior period adjustments, December 31, 2004	(1,321,566)	(6,608,165)	(1,894,815)	(5,421,851)	(3,927,914)	(19,174,311)	(17,948,085)	(37,122,396)
2005 Net income from operations	20,389	104,412	30,403	84,865	60,656	300,725		300,725
2005 Depreciation expense	(147,970)	(757,746)	(220,645)	(615,887)	(440,199)	(2,182,447)	(835,810)	(3,018,257)
Retained earnings, depreciation and prior period adjustments, December 31, 2005	(1,449,147)	(7,261,499)	(2,085,057)	(5,952,873)	(4,307,457)	(21,056,033)	(18,783,895)	(39,839,928)
Prior period adjustments for 2005	(4,259)	(10,858)	8,946	(7,035)	13,206			
Net assets, December 31, 2005	\$ 2,370,605	\$ 14,217,600	\$ 3,347,909	\$ 11,942,819	\$ 6,908,441	\$ 38,787,374	\$ 10,351,992	\$ 49,139,366

SOUTH VALLEY WATER RECLAMATION FACILITY  
TOTAL YEAR-TO-DATE MEMBERS' CONTRIBUTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Midvale City	South Valley Sewer	Midvalley Improvement District	West Jordan City	Sandy Suburban	Total Members' Contributions
Total capital contributions	\$ 3,320,326	\$ 17,015,434	\$ 4,953,149	\$ 13,827,572	\$ 9,880,502	\$ 48,996,983
Total phase IV contributions	526,441	4,834,242	540,425	3,972,123	1,426,694	11,299,925
Total construction project financing contributions	87,309	471,611	88,396	666,837	232,346	1,546,499
Total refund of members' contributions	(110,065)	(831,330)	(157,950)	(563,805)	(336,850)	(2,000,000)
Total year-to-date members' contributions	<u>3,824,011</u>	<u>21,489,957</u>	<u>5,424,020</u>	<u>17,902,727</u>	<u>11,202,692</u>	<u>59,843,407</u>
Retained earnings, depreciation and prior period adjustments, December 31, 2005	<u>(1,453,406)</u>	<u>(7,272,357)</u>	<u>(2,076,111)</u>	<u>(5,959,908)</u>	<u>(4,294,251)</u>	<u>(21,056,033)</u>
Net assets, December 31, 2005	<u>\$ 2,370,605</u>	<u>\$ 14,217,600</u>	<u>\$ 3,347,909</u>	<u>\$ 11,942,819</u>	<u>\$ 6,908,441</u>	<u>\$ 38,787,374</u>

**SOUTH VALLEY WATER RECLAMATION FACILITY**  
**MANAGEMENT REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

SOUTH VALLEY WATER RECLAMATION FACILITY  
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FOR THE YEAR ENDED DECEMBER 31, 2005

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees  
South Valley Water Reclamation Facility  
7495 South 1300 West  
West Jordan, Utah 84084

We have audited the financial statements of South Valley Water Reclamation Facility as of and for the year ended December 31, 2005, and have issued our report thereon dated January 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South Valley Water Reclamation Facility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether South Valley Water Reclamation Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we have reported to the management of South Valley Water Reclamation Facility in the accompanying *Schedule of Findings and Questioned Costs*.

This report is intended solely for the information and use of the Board of Trustees, management, and others within the organization and is not intended to be and should not be used by anyone other than those specified parties.

*Wiggins & Co. P. C.*

Sandy, Utah  
January 27, 2006



## INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

To the Board of Trustees  
South Valley Water Reclamation Facility  
7495 South 1300 West  
West Jordan, Utah 84084

We have audited the financial statements of South Valley Water Reclamation Facility for the year ended December 31, 2005 and have issued our report thereon dated January 27, 2006. Our audit included test work on the Facility's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Other Compliance Requirements
- Special Districts

The Facility did not receive any major or nonmajor State grants during the year ended December 31, 2005.

The management of South Valley Water Reclamation Facility is responsible for the Facility's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Facility's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying *Schedule of Findings and Questioned Costs*. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, South Valley Water Reclamation Facility complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed: eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended December 31, 2005.

This report is intended solely for the information of the board of trustees, management and the Utah State Auditors, and is not intended to be and should not be used by anyone other than specified parties.

*Wiggins & Co. P.C.*

Sandy, Utah  
January 27, 2006

SOUTH VALLEY WATER RECLAMATION FACILITY  
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

A. FINDINGS – STATE OF UTAH LEGAL COMPLIANCE – CURRENT PERIOD

#1 TELEPHONE LISTING

Finding

Section 54-3-25 of the *Utah Code* requires special districts having a total annual budget over \$5,000 to provide and request publication, annually, of their name, telephone number, and address to the telephone directory publisher serving the geographical area within which the special purpose district headquarters is located. In addition, by June 30 of each year, the district shall certify in writing to the county treasurer the information was provided to the local telephone directory publisher for inclusion in the government section of the local directory.

Recommendation

The special district should comply with the telephone listing requirement.

Response

Now that we are aware of the law, if it is determined by the Facility's attorney that it applies to South Valley Water Reclamation Facility, we will come into compliance to the best of our knowledge and ability.